

Box 1: Results of IMF Technical Assistance on the Colombian Foreign Exchange Market¹

Introduction

Between 22 April and 03 May 2024, the International Monetary Fund (IMF) provided technical assistance to assess the Colombian foreign exchange market and its regulatory framework, and to identify strategies to strengthen its development while ensuring the preservation of financial stability².

The analysis concluded that the Colombian foreign exchange market has exhibited remarkable development over the last few years, reflected in an exchange rate that has responded flexibly to economic conditions. It noted that the spot market is liquid, competitive, and efficient by international standards, with a robust interbank FX market. Additionally, it has significant participation from foreign investors and effective risk mitigators. In turn, the forward market comprises participants with heterogeneous risk profiles and is primarily used for hedging against exchange rate fluctuations, being a market dominated by Non-Delivery Forwards (NDF)³.

The diagnosis was structured around the COP's convertibility and its internationalization⁴. Based on this exercise, the IMF made nineteen recommendations grouped into two main areas: easing administrative burdens and developing the foreign exchange market. During the agenda-setting process for evaluating each of these recommendations, timelines were discussed with entities external to *Banco de la República (Banrep)*, such as the Financial Superintendency of Colombia (SFC in Spanish), the Colombian Tax and Customs National Authority (DIAN in Spanish), and the Financial Regulatory Unit (URF in Spanish). A work plan was developed to ensure the timely evaluation of the IMF's various proposals regarding the internationalization and convertibility of the COP. It should be noted that the assessment does not necessarily imply the implementation of the recommendations, but rather a review of their suitability for the development of the Colombian foreign exchange market.

¹ Authors: Nataly Alexandra Díaz Gonzalez and Alejandra Arteaga Arango. The opinions expressed in this document do not represent or commit *Banco de la República* or its Board of Directors. Any errors or omissions are and will be the sole responsibility of the authors.

² The IMF technical assistance document is available in [Colombia: Technical Assistance Report-Foreign Exchange Market Development and Regulatory Framework Review](#).

³ A Non-Delivery Forward is a financial contract that allows parties to agree on an exchange rate for a future transaction without the currency's physical delivery.

⁴ Convertibility refers to a currency's ability to be exchanged for another foreign currency without restrictions. Internationalization refers to the process by which companies seek to expand their operations to other countries, adapting to the economic and legal environments that such expansion entails.

As a foreign exchange authority, *BanRep* has been advancing the evaluation of recommendations through a coordinated process involving internal and external committees. The progress made within the work plan highlights the establishment of a local foreign exchange committee together with the Securities Market Self-Regulator (AMV in Spanish), plus the adhesion of this committee to the Global Foreign Exchange Committee (GFXC) and the streamlining of the sanctioning framework (both for the foreign exchange and monetary transaction regimes) by *BanRep*.

This box presents the main messages related to the IMF’s technical assistance, diagnosis, and recommendations aimed at developing the foreign exchange market.

Diagnosis of the Colombian Foreign Exchange Market

According to the IMF report, emerging market economies (EMEs) have experienced a significant acceleration in their trend toward internationalization since the 2000s. The COP has increased its share in foreign exchange trading volume by 0.13 percentage points (pp), rising from 0.05% in 2007 to 0.18% in 2022. Although this figure remains small compared to the average of other EMEs (6.26% in 2022), the ratio of foreign exchange market transaction volumes to the level of economic activity is similar to that of peers such as Peru and Brazil.

The flexibility of the COP is essential for the transmission of monetary policy and has enabled the economy to respond to external shocks. In this regard, its development is key to the country’s growth. The Colombian economy is constantly exposed to shocks related to trading terms and external financing needs. The flexible exchange-rate regime allows the economy to respond to these shocks while maintaining competitiveness, reflecting economic fundamentals, and providing greater autonomy in monetary policy.

As a foreign exchange authority, *BanRep* enables various foreign exchange market intermediaries (FXIs) to carry out transactions based on the type and level of their technical equity, and these entities are supervised by the SFC. The foreign exchange regulation governs transactions permitted by different foreign exchange market agents, including restrictions on foreign currency accounts held by residents and non-residents for specific transactions, as well as the establishment of rules for holding accounts abroad, based on their intended use.

The spot market is liquid, competitive, and efficient, while the forward market primarily uses NDFs. Optimal conditions were identified in the t+0 settlement and in the clearing of spot and NDF transactions. However, the forward market has a limited share of other instruments such as FX Swaps, cross-currency swaps, delivery forwards, and options. Market dynamics segment foreign and resident participants through risk-mitigation mechanisms and the currencies in which they can conduct transactions.

The IMF identified opportunities for improvement to positively impact the peso’s convertibility, market efficiency, incentive structures, and risk management. These opportunities aim to enhance greater clarity in current regulations, optimize information requirements, and harmonize the local master agreement (ISDA) with global standards. Additionally, suggestions were made to assess limits on permitted transactions for domestic and foreign agents, review limits on entities’ foreign exchange exposure and repatriation deadlines and promote access to and use of financial instruments for the foreign exchange market to manage exchange-rate-related risk.

On the other hand, the IMF urges Colombia to prepare for the arrival of foreign agents and to foster increased competition and access to a wider range of financial instruments. It fosters equal regulatory treatment for foreign investors and the coverage of foreign assets held by pension funds in market development. To this end, it is necessary to assess the robustness of FX Trading systems (TRS) against potential foreign agent participation and to continue strengthening technological capacity to improve information collection and processing.

Recommendations

Considering the diagnosis of the Colombian foreign exchange market, the IMF made nineteen recommendations grouped into two main areas: reducing administrative burdens and developing the foreign exchange market. Overall, these recommendations, as outlined in the IMF report, should be assessed in two stages: short-term (less than 12 months) and medium-term (12 to 36 months).

The IMF's recommendations aim to assist the authorities in developing a work plan that promotes the development of Colombia's foreign exchange market. In this regard, working groups were established with three stages for the recommendations: assessment, implementation, and monitoring. The coordination for assessing the various recommendations has been conducted based on a prioritization exercise aligned with the IMF's suggestions and considering the local capacity to ensure timely compliance.

Within the group of recommendations aimed at reducing the administrative burdens in foreign exchange market transactions, there are nine recommendations, of which three are short-term and six are medium-term (Table B1.1). These recommendations reflect the IMF's perspective on the documentation required by entities, which may discourage the use of financial instruments or limit market agents' participation. Notable progress in this area includes the streamlining of *Banrep's* sanctioning framework, as detailed in *Box 2: Simplification of the Sanctions Framework for Monetary and Foreign Exchange Transactions – Financial Markets Report, 3Q25.*

Recommendations aimed at easing Administrative Burden on FX Transactions

Short Term

- Authorities should uphold their policy of not collecting documentation on foreign exchange transactions for compliance purposes at the transactional level.
- Authorities should review the foreign exchange regulatory framework and align it with the corresponding anti-money laundering and counter-terrorism financing framework, as well as with the tax regulation framework.
- Authorities should rationalize the sanction structure and provisions should be made clearer.

Medium Term

- Authorities should determine or revise a transaction-size threshold for ex-post data provision, balancing the number and total amount of small value transactions.
- Authorities should review the purpose, scope, use, and potential duplication with other entities

regarding information collected from the public and the financial sector in transactions involving foreign currency, external credit, and investments.

- *BanRep* should keep enhancing its capacity to implement technological upgrades and solutions that optimize data collection and enhance communication and regulatory clarity.
- Authorities should assess whether the regulatory option of the risk-based approach to transactions requires improvements or clarification for regulated entities or customers.
- *BanRep* should extend the current six-month repatriation period for channeling the inflows from exported goods.
- *BanRep* should consider broadening the “positive list” (allowed) of current and financial account operations and, later, consider a “negative list” approach (specifying what is prohibited)

In turn, ten recommendations were formulated aimed at developing the foreign exchange market. These recommendations are oriented toward the short, medium, and long term, as all of them require an in-depth assessment both internally and within inter-agency working groups (Table R1.2). These recommendations seek to promote a foreign exchange market with a robust infrastructure, a diverse range of financial instruments, and a user base with heterogeneous risk profiles. They also promote an adequate price formation process and allow the exchange rate to appropriately reflect its economic fundamentals, facilitating hedging opportunities and fostering foreign investment. In this regard, the consolidation of the local foreign exchange committee, in coordination with AMV, stands out (Box on adherence to the GFXC⁵).

Recommendations Aimed at Developing the Foreign Exchange Market

Short Term

- *BanRep* should establish a standing FX committee, possibly involving all relevant market participants, to conduct a proactive and open discussion on the key issues for the fair and effective functioning of the foreign exchange market.
- Authorities should assess the robustness of FX Trading Systems to high-frequency operations and upgrade it with safeguards, if needed.
- Authorities should explore the possibility of harmonizing local ISDA contracts with global standards.
- Assess the advisability of allowing residents and/or non-residents to hold USD accounts in Colombia.

⁵ See Box 2: *Avances en la Vinculación de Colombia al Comité Global de Divisas* - Financial Markets Report, Second Quarter of 2025, Banco de la República.

Medium Term

- *BanRep* should enhance market transparency by increasing the publication of regular reports accessible to the public.
- Allow the trading of non-standardized derivatives in COP in a system where residents and foreigners can interact.
- Authorities should allow international correspondent banking relationships to be fully operational using nonresident COP accounts to be held in FXI Group 1 IMC, under appropriate supervision and integration with foreign exchange regulations.

Long Term

- *BanRep* should review the foreign exchange exposure limits of domestic banks regularly.
- Authorities should allow the full use of COP accounts held by non-residents in Colombia for proprietary transactions.
- Authorities should assess the possibility of licensing non-resident banks to perform certain foreign exchange operations onshore without having to establish a legal entity.

Conclusions

The IMF's technical assistance made it possible to identify potential obstacles to the development of the Colombian foreign exchange market. This assistance serves as an invitation to assess different aspects of the foreign exchange market, fostering its development and, moreover, representing a strategic opportunity to coordinate efforts with other entities to enhance the internationalization and convertibility of the peso, thereby increasing integration with the global financial system.

The work plan for these nineteen recommendations, focused on regulatory, operational, and development initiatives, represents the institutions' effort to develop the foreign exchange market in line with international standards and ongoing dialogue with market participants. The working groups that have been established have fostered discussions on technological infrastructure, limitations to participants' involvement, regulatory changes, transparency and alignment with international practices regarding the use of instruments. Thus, progress stands out in the streamlining of the sanctioning framework and the strengthening of the local foreign exchange committee, in coordination with the AMV. The implementation of this work plan is currently being discussed within the framework of *BanRep's* strategic plan for 2026–2029.